

CLOSING THE GAP: reconciling short-term disaster response with long-term risk reduction with 'forecast-based financing' (FBF)



Key messages

- ▶ A serious **funding shortfall** exists for both disaster response and long-term disaster risk reduction and development.
- ▶ The Red Cross Red Crescent and its partners have developed **forecast-based financing** with which early preparedness action is funded after a forecast is released but before a disaster hits.
- ▶ Science-based decision-making helps identify people most at risk from climate-related disasters to **use scarce resources more efficiently**.
- ▶ Piloted in at least 15 countries, the approach can improve **humanitarian effectiveness** by triggering action when risks are greatest.
- ▶ A comprehensive strategy to **fund and operationalize** the approach at all levels and involving all stakeholders is now crucial.

The backdrop: global policy

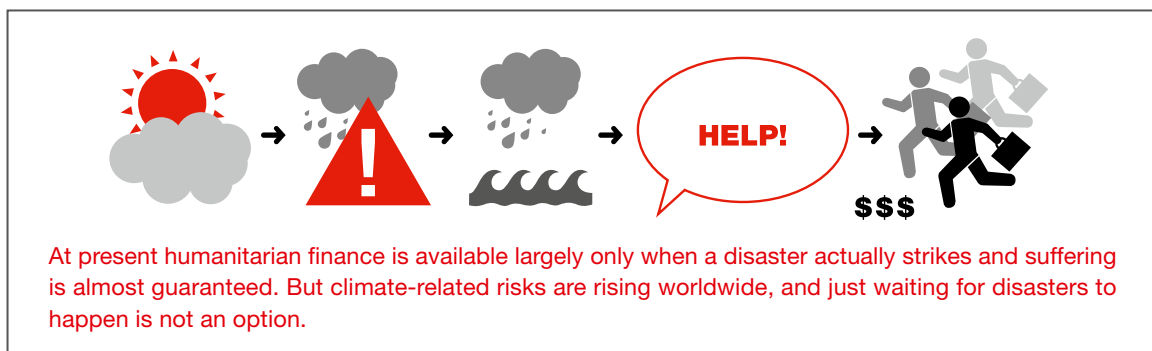
The scenario is all too familiar: a disaster strikes and humanitarian finance arrives only after the event. The world watches as communities lose people and livelihoods, and suffer economic setbacks that undermine development gains.

The Intergovernmental Panel on Climate Change, the world's leading body of climate scientists, has called for policy-makers to adapt to a changing climate by preparing for extreme events. Climate-related risks are on the rise; the number of people in need of humanitarian assistance is increasing; the amount of humanitarian finance for disaster response is stagnating.

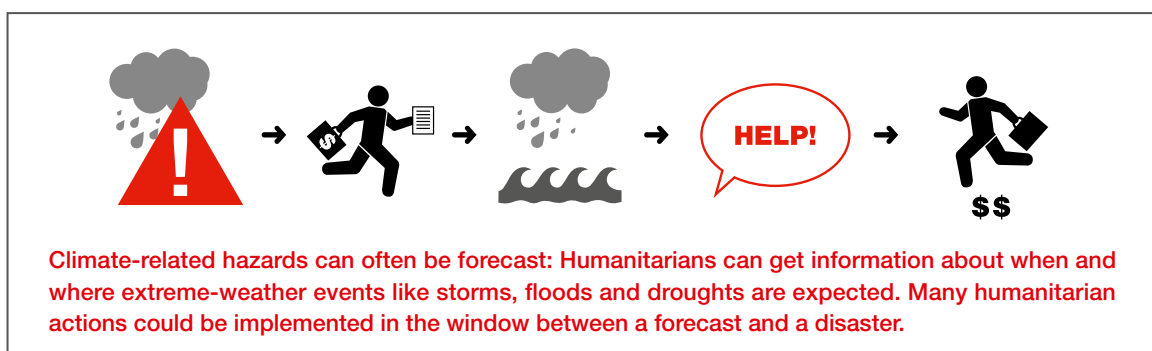
Waiting for disasters to happen is no longer an option; a more efficient system is needed. Value-for-money or cost-benefit approaches have to be applied for humanitarian operations and development investments alike, so we can use scarce financial resources more effectively.

As a result, policy directives have increasingly spurred investment in improved early-warning systems. Yet there is little evidence that these systems are clearly linked to **early action**. Most funding mechanisms to address risks focus on either long-term disaster risk reduction (DRR) or response and reconstruction.

FBF enables policy-makers and practitioners to invest in a cutting-edge approach that spans the humanitarian-developmental continuum. It triggers early action based on a scientific warning, effectively closing the gaps between preparedness, disaster risk reduction and emergency response.



FBF was developed by the Red Cross Red Crescent and its partners funded by the Federal Foreign Office. The concept involves the release of funds for agreed humanitarian actions **after** a forecast is issued but **before** a potential disaster strikes. Since 2012 FBF has been piloted by partners in at least 15 countries, addressing hazards as diverse as droughts, floods and cold waves, and demonstrating how essentially response-oriented actions can support DRR and development.



Prevention is better than cure: Why forecast-based financing makes sense

Over the last decade, climate and weather models became more accurate and generate freely available information. But despite this it's rare to find forecast-based contingency plans in humanitarian organizations that would convert the information into action on the ground. It is even more rare to find financial mechanisms available to humanitarian organizations based on forecasts and warnings.

While preparedness plans are typically designed to anticipate potential disasters, they are based on **average** levels of risk not real-time forecasts. As such, they do not allow for scarce funding to be made available when risk spikes – due to a forecast of an extreme event, for example.

The risk of 'acting in vain' often discourages funding actions that could reduce risk and build local resilience over the long term.

The success of FBF depends on a coordinated effort by a range of actors including meteorologists, climate scientists, humanitarian and development actors, governmental authorities, donors and local communities. Together, they agree on preparedness actions – standard operating procedures (SOP) – regarded as worthwhile once a certain threshold of forecast risk is crossed. Each action, defined in advance, is budgeted for; funding then automatically enables such early action.

Guided by its **Action Plan for Humanitarian Adaptation to Climate Change**, the German Federal Foreign Office has been a leading funder of the FBF pilot projects in Mozambique, Peru and Bangladesh.

For example, in Peru, to be better prepared for possible floods during El Niño years, the Peruvian Red Cross and its partners have defined an SOP for their FBF work to purchase materials to reinforce houses when a seasonal, or three-month, forecast predicted floods. The Red Cross stores the materials; then if a short-term, or seven-day, forecast indicates flooding is likely, the National Society immediately distributes materials and residents quickly reinforce their homes.

Under an SOP in Uganda, the Red Cross and its partners distribute specific materials including water-purification tablets, soap, and shovels when the forecast indicates at least a 50 per cent chance of flooding. The examples of Uganda and Peru ensure humanitarian supplies reach beneficiaries before they are actually needed for real.

Of course, no forecast is 100 per cent certain; it's always understood that sometimes the forecast extreme event will not materialize. But the essence of FBF is that over time, the losses implied by occasionally 'acting in vain' will be more than offset by the added benefits of scientifically enabled early action before disasters do materialize.

Two policy recommendations

Humanitarian and development practitioners agree that the funding gap must be closed and a **strategy to support the development and operationalization** of FBF worldwide is needed. The following policy recommendations are based on experience with FBF pilots and discussions with policy-makers, practitioners and thought leaders already engaged with the concept.

1. Support for standing preparedness funds to be readily available on short timescales is essential for our ability to scale up this system.

2. Governments, civil society and the private sector need to collaborate to frame appropriate standard operating procedures. Early experience underscores the importance of establishing strong institutional arrangements, including multi-agency working groups that also involve beneficiaries, to design SOPs that must then be continually evaluated and revised.

FBF and the post-2015 policy landscape

Forecast-based financing offers an important opportunity to promote implementation of key global commitments shaping the post-2015 policy landscape.

- The **Sendai Framework for Disaster Risk Reduction** emphasizes the need to move from an emphasis on response to risk management, while mobilizing investment in avoiding new risks. FBF supports Sendai's emphasis on managing disaster risk and enhancing preparedness for effective response and eventually 'building back better'.
- FBF speaks directly to the **Addis Ababa Action Agenda** on financing the management of risk as part of strategies for cost-effective and sustainable development. (The agenda emerged from last year's International Conference on Financing for Development).
- FBF is featured in the synthesis report for this year's **World Humanitarian Summit** – a key meeting of the humanitarian community that will inform the direction of humanitarian response in the future.
- The **UN climate talks in Paris** involved recognition that the climate risks we all confront day in day out are rising, with potentially unmanageable consequences for the planet. Better arrangements to build resilience will be a key part of bringing the agreement reached at COP 21 to fruition, and FBF offers a very specific, actionable solution that builds on existing capacities. It featured in side-events in Paris, including the global initiative on resilience launched by UN Secretary-General Ban Ki-moon.